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Statement of
the Comptroller General
of the United States
before the
Subcommittee on Intergovernmental Relations
of the
Committee on Government Operations
House of Representatives
on
H.R. 7366, a bill to improve the financial management
of Federal assistance programs
and
H.R. 10954, a bill to authorize consolidation of
Federal assistance programs

Mr. Chairman and Members of the Committee:

We are pleased to appear here today at your request to present our views on H.R. 7366, a bill to improve the financial management of Federal assistance programs, and H.R. 10954, a bill to authorize consolidation of Federal assistance programs.

Each of these bills has as an objective the simplification and improvement of the management of grant-in-aid programs carried out by the Federal Government. This is an objective which we all share.

H.R. 7366, which is more comprehensive than H.R. 10954, is intended to provide for improved financial management of the Federal assistance programs (title II), to facilitate the consolidation of such programs (title III), to provide temporary authority to expedite the processing of project applications drawing upon more than one Federal assistance program (title IV), and to strengthen further congressional review of Federal assistance programs (title V).

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H.R. 10954 is restricted in its coverage to the consolidation of Federal assistance programs, and is similar in its objective to title III of H.R. 7366.

Improving the Financial Management of
Federal Assistance Programs

Title II of H.R. 7366 provides for adding a new title VII to the Intergovernmental Cooperation Act of 1968, regarding accounting, auditing, and reporting of Federal assistance funds. We concur with many of the concepts expressed in the proposed new title, but have reservations on others which may have the effect of limiting the surveillance and control that should be exercised by the Federal Government over funds and other resources made available to the States. The new title relates to reliance by the various agencies administering Federal assistance programs on the financial controls exercised by States and other local entities and to certain requirements for actions to be taken by the Comptroller General as a basis for similar reliance by the General Accounting Office.

Section 704 of the proposed title VII provides generally for acceptance by the General Accounting Office of audits made by States and their political subdivisions. Section 704(a) authorizes the Comptroller General to prescribe rules and regulations whereby the General Accounting Office may accept for purposes of its auditing of Federal assistance programs the auditing performed by States and political subdivisions receiving Federal assistance. Section 704(b) would require the General Accounting Office to periodically test the standards of accounting and the auditing control systems of States and other local units to verify the continuing reliability of the State accounting systems and the audit work of such States or other

political subdivisions. Section 704(c) would require the Comptroller General to report annually to the Congress on operations under section 704.

Concerning our audits, section 117(a) of the Accounting and Auditing Act of 1950, 31 U.S.C. 67(a), provides as follows:

"* * * Except as otherwise specifically provided by law, the financial transactions of each executive, legislative, and judicial agency, including but not limited to the accounts of accountable officers, shall be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. In the determination of auditing procedures to be followed and the extent of examination of vouchers and other documents, the Comptroller General shall give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies."

In auditing the financial transactions of the Federal agencies we examine into the manner in which they discharge their financial responsibilities to evaluate whether their programs or activities are conducted in an effective, efficient, and economical manner. We cannot and do not audit all of the financial transactions of the Federal agencies. This is recognized by the broad discretionary authority granted the Comptroller General under the provision of law I just mentioned. The last sentence

of the cited section of the law specifically authorizes the Comptroller General in the determination of the auditing procedures to be followed and the extent of examination of vouchers to consider the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices of the respective agencies.

There are several hundred Federal assistance programs administered through many thousands of political subdivisions within the States. The General Accounting Office cannot and should not undertake audits of the operations of all recipients of Federal assistance at all locations. In examining into whether Federal assistance programs are administered by the agencies in an effective, efficient, and economical manner, it is sometimes desirable to do a limited amount of review of the records of the recipients of Federal assistance but this is done on a very selective basis. It is our practice first to consider and evaluate the accounting and auditing work of the Federal agencies and local political subdivisions. This consideration and evaluation must be done on a professional basis, using judgment in each instance as to the character and amount of work to perform and without significantly or unnecessarily duplicating the audit work done by or on behalf of Federal, State, or local agencies.

Since an important objective of audits by the General Accounting Office is the evaluation of program management processes, including auditing performed by the Federal, State, or local agencies as a part of such management processes, it is not reasonable for the General Accounting Office to routinely accept the audits made by others as a substitute for its own audit work. We should and do evaluate selected audits made by

States and other local entities as part of our evaluation of Federal agency control efforts and as a means of our evaluating a larger segment of an assistance program without an extensive amount of detailed local level audit work.

We believe that in enacting section 117(a) of the Accounting and Auditing Act of 1950, the Congress has provided appropriate guidance to the Comptroller General and the General Accounting Office regarding its audit effort in agencies, including such effort in the review of Federal assistance programs involving the States and other political subdivisions.

Accordingly, we recommend deletion of section 704. The deletion of section 704 would also require deletion of certain text beginning on line 10, page 3, through line 14, page 3, and in line 6 of page 3.

Section 703 of H.R. 7366 provides, in general, for substantial reliance by Federal agencies on the accounting and auditing work performed by the recipients of funds and other resources under Federal assistance programs. We agree that reliance must be placed on the accounting and reporting done by such recipients, since the financial transactions are carried out by the recipients and the accounts are kept and the reports are prepared by such recipients. However, we raise a question regarding the concept of Federal agency acceptance of audits performed under such local systems--local agency audits--in lieu of audits which otherwise would be required to be performed by such Federal agencies, as stated in section 703(c) of the proposed title VII of H.R. 7366.

It would seem that moving from the extreme of audits being made by Federal agencies where audits have already been made by a local group, to the other extreme of accepting such local audits in lieu of Federal audits, requires further consideration. An alternative would be that the Federal agency evaluate the local audits, and if such evaluations indicate a certain audit or group of similar audits in a State are satisfactory, then accept them in lieu of Federal audits for that part of the program. If such audits are not found acceptable upon evaluation, then the Federal agency should be permitted to proceed with a Federal audit if staff resources permit such effort.

The objective of coping successfully with the problem of auditing the many Federal assistance programs is most desirable. However, it must be recognized that local entity audits are made by the recipients of Federal assistance, and therefore the element of objectivity has to be fully considered. To meet this concern we believe that a measure of balance between direct Federal auditing and the acceptance of local agency audits can be achieved by Federal agency evaluation of local audits or a group of similar audits, before fully accepting them in lieu of performing an audit in a given area with Federal employees.

To achieve the concepts expressed above regarding conceptual changes in section 703 of H.R. 7366, we suggest certain language revisions to that section as stated in an attachment to my statement.

Section 703(b) of H.R. 7366 requires the heads of agencies administering Federal assistance programs to determine the adequacy of the

internal financial management controls systems employed by the recipient jurisdictions. One of the criteria prescribed relates to accounting records and reports and states that there shall be a determination as to whether they are maintained and prepared in accordance with "generally accepted accounting principles." This term, in its usual application, refers to accounting for companies operating in the private sector. It is entirely possible that under Federal programs accounting principles may be required other than those contemplated by the term "generally accepted accounting principles."

To avoid unnecessary complications arising through problems of interpretation, we recommend that on line 14, page 4, beginning immediately after the word "principles," the following words be added: "applicable to such programs and such recipient jurisdictions."

Section 702 would authorize the President to promulgate rules and regulations concerning the financial reporting requirements of Federal assistance programs. We assume that this authority relates to financial reporting by the recipients of grants and not to the Federal agencies administering grant programs. To remove any doubt in the matter, we suggest that the words "required of recipients under" be substituted for the words "requirements of" in line 19, page 3, of H.R. 7366.

Consolidation of Federal Assistance Programs

Title III of H.R. 7366 and H.R. 10954 each provide a method to achieve consolidation of Federal assistance programs. Both bills provide that the President shall from time to time examine the various Federal assistance programs established by law and shall determine what consolidations

of such programs are necessary or desirable to make the programs or aspects thereof more consistent, efficient, and effective, and then the President is to submit consolidation plans to the Congress for review. These Presidential plans would become law unless rejected by either House of the Congress.

The statement of purpose is expressed differently in the two bills, but we believe the objectives are consistent. H.R. 10954 states the purpose of the bill in part by relating the new bill to the existing reorganization law (5 U.S.C. 901(a)), whereas H.R. 7366 includes a statement of purpose (page 7) without reference to the present law on reorganization. Either approach seems to be an adequate means of stating the purpose of the proposal.

The provisions of the two bills regarding content of consolidation plans are stated and presented differently, but are directed to essentially the same objective. (H.R. 7366, pages 8 and 9; H.R. 10954, pages 3 through 6.) We note that H.R. 10954 contains a section (page 5) on limitation of powers. It would seem that a section of this character would be desirable.

Title III of H.R. 7366, which would create a new title VIII for the 1968 act, involves potential difficulties in agency administration of the act. Section 802(a)(5) of the proposed new title VIII provides that "except that unexpended balances so transferred may be used only for the purposes for which the appropriation was originally made." The Committee may wish to consider exclusion of this provision, as it will tend to defeat, until the following fiscal year, the purpose of the consolidation action being

authorized by the bill. Presumably, in fiscal years subsequent to the year of consolidation, the appropriations would be made for the consolidated program, but the bill as now written would require separation of transferred balances until they were no longer available for obligation or disbursement.

The consolidation provisions of each bill will apply to "Federal Assistance Programs." We note, however, that under the respective definitions of the term "Federal Assistance Programs" under the two bills, the possible application of the consolidation provisions would differ considerably. For example, the definition included in title I of the Intergovernmental Cooperation Act of 1968, which would be applicable to consolidations as proposed in title III of H.R. 7366, specifically excludes shared revenues, payment of taxes, payments in lieu of taxes, payments under certain contracts, etc., in contrast to the definition in section 1002 of H.R. 10954 which specifically includes these items.

We suggest that the Committee give consideration to this matter in order that any legislation which might be enacted to provide for consolidation of assistance programs will precisely define the scope of its intended application.

The provisions for congressional consideration are similar in the two bills (H.R. 7366, pages 10 and 11, and H.R. 10954, pages 6 and 7). However, H.R. 7366 states a 90-day period while H.R. 10954 states a 60-day period for congressional consideration. It is noted that making a plan effective a stated number of days after submission makes it effective on any day in the month. It may be preferable from the standpoint of

simplifying the effecting of the actual consolidation, to make it effective on the first day of the month after the expiration of the stated period of time.

H.R. 10954 contains section 1006 (page 7) regarding effect on other laws and regulations, while H.R. 7366 does not. The section in H.R. 10954 may be desirable to make the legislation as clear as possible.

It is noted that H.R. 10954 has an expiration date of April 1, 1971 (section 1004(b), page 6), while H.R. 7366 has an expiration date of 3 years after its enactment.

H.R. 7366 contains considerable material regarding the procedures to be observed by the Congress when considering consolidation plans. These procedures seem to be comparable to those applicable under reorganization plans (5 U.S.C. 900 et.seq.) which are incorporated by reference in H.R. 10954.

We believe that title III of H.R. 7366 or H.R. 10954 would provide, with certain changes in either, an effective and practical means for achieving constructive action to consolidate those Federal assistance programs which are appropriate for such consolidation. The growth in the number of these programs in recent years has created a rather complex structure within the Government and causes confusion among, and complexities for, the potential recipients as well as the Federal administrators. The consolidation plan approach provides an avenue for constructive remedial action through proposals made by the President based on studies and consideration by those entities which administer the programs proposed for consolidation.

Joint Funding Simplification

Title IV of H.R. 7366 would amend the Intergovernmental Cooperation Act of 1968 by adding to it a new title IX - Joint Funding Simplification.

We fully support the general objective of simplifying and improving the administration of related grant-in-aid programs. Today's large number of individual grant-in-aid programs, each with its own set of complex special requirements, separate authorizations and appropriations, cost sharing ratios, allocation formulas, and financial procedures, makes it increasingly difficult to manage and administer those programs in a comprehensive or efficient manner.

It is our opinion that there is presently much, in the way of coordinating and standardizing current Federal grant-in-aid programs, which could be done on an administrative level without additional legislation. But, if administering grant programs on a consolidated basis is desirable, we believe that the real key to significantly improved administration lies in the consolidation of programs into broader categories of assistance, and the placement of like programs in a single agency, rather than establishing an administrative apparatus to deal with a continuing proliferation of single narrow purpose programs.

Both title III of H.R. 7366 and H.R. 10954 would provide a most significant means for achieving constructive action in the future to consolidate those Federal assistance programs which are appropriate for such consolidation. As these consolidations occur there should be less need for implementing action under title IV of H.R. 7366. Also, the results of studies and

information assembled pursuant to title VI of the Intergovernmental Cooperation Act of 1968 (Public Law 90-577), as proposed for amendment by title V of H.R. 7366, should lead to congressional consideration of, and possible action on, consolidation of Federal assistance programs. This action would tend to further reduce the situations where action would be needed under the joint funding simplification title.

If title IV of H.R. 7366, regarding joint funding, is considered favorably for enactment, we believe that it should be carefully and gradually implemented under the required Presidential guidelines with provision for thorough evaluations of results achieved, and that a specific provision should be included in the legislation for limiting its application to geographical areas or perhaps to programs. Our concern is that there could exist pressures which might force too rapid an adoption of untested concepts and procedures, and once placed in operation, would make difficult the reversal of procedures found to be unworkable.

We would endorse legislation limited in its application as indicated above. This would not only serve to more specifically delineate the advisability of full implementation of the proposals, but would also provide valuable information relating to programs which might be more efficiently administered if consolidated as contemplated by title III of H.R. 7366, and as contemplated in H.R. 10954.

With respect to specific provisions of H.R. 7366, section 902 of the proposed new title IX of the 1968 act, as it relates to intra-agency joint funds, would permit the inauguration of the program in all affected agencies

without provision for going through an experimental and testing period. We would prefer first having a limited application to eliminate any problem areas prior to full-scale implementation. Such limited application is provided for intergovernmental projects authorized by section 903.

Section 903(d) within title IV of H.R. 7366, which authorizes the establishment of joint management funds to account for projects financed from more than one Federal program or appropriation, provides that any excess funds therein should be returned to the participating Federal agencies in accordance with a formula mutually acceptable as providing an equitable distribution, and for effecting returns accordingly to the applicable appropriations. Inherent in the joint funding concept is the possibility that the actual spending for individual programs merged into a joint program under a joint fund may be somewhat different than was planned when the joint project was established, although the sum of the individual programs would not exceed the overall total. The extent of variance between the plans and the actual results for each program in a joint project may or may not be discernible upon completion. This fact is presented as a matter of information and not necessarily as an objection to the joint funding concept. A similar situation would apply to intra-agency joint funds under section 902(d).

Section 904(a) would have the effect of permitting any appropriation involved in joint funding, that is available for either technical assistance or training of personnel, to be used for both technical assistance and training under any program included in joint funding, although one or more of the programs involved in the joint funding may not have funds approved by the

Congress for training and/or technical assistance purposes. Also, appropriations available for training, but not technical assistance, might be used for technical assistance, or vice versa. This could result in training and technical assistance funds being used for purposes beyond those for which originally authorized and appropriated. This matter is brought to your attention without a recommendation.

Access to records

The last sentence of section 202 of the 1968 act provides that the head of the Federal agency and the Comptroller General shall have access for the purpose of audit and examination to any books, documents, papers, and records that are pertinent to the grant-in-aid received by the States. We recommend that that sentence be amended by adding at the end thereof the words "or their political subdivisions."

This amendment will avoid the necessity of enacting specific provisions of law therefor in each Federal assistance program in which political subdivisions of the States may participate.

Mr. Chairman, this concludes my statement and I will be happy to answer any questions that you or the other Committee members may have. Also, if you desire, we will be glad to work with your staff members in modifying the language of either bill.